

MEMORANDUM

To: Lisa Maxwell, Community Development Director
City of Alameda

Date: September 14, 2021

Subject: Impacts of Excess Unit Fee on Base Reuse Viability

This memorandum evaluates implications of the fee for Excess Residential Units (Excess Unit Fee) to the viability of base reuse plans for Alameda Point. The Excess Unit Fee is established under Amendment No. 2 to the Memorandum of Agreement for Conveyance of Portions of the Naval Air Station Alameda (MOA) and is due if the number of new market rate residential units constructed at Alameda Point exceeds a specified baseline number of residential units.

A. Summary

The Excess Unit Fee is a mechanism agreed to in the context of a no cost Economic Development Conveyance (EDC) by the Navy. The intent is to prevent the City from leveraging the no-cost conveyance after costly Federal environmental remediation into a windfall by shifting the land use plan toward more lucrative uses. While designed to address a reasonable concern at the time, the Excess Unit Fee is resulting in unintended consequences detrimental to realization of important planning and economic development objectives and is becoming a significant barrier to feasibility of base reuse plans generally.

The Excess Unit Fee is grounded in the 1996 NAS Alameda Community Reuse Plan (Reuse Plan), which reflected residential uses at a single family density of development. At that time, the economics of non-residential development were anticipated to be able to at least partially support the cost of redevelopment at Alameda Point. Twenty five years later, the City's land use plans and policies have evolved in response to the housing crisis, the climate crises, and the economic reality of rising costs to deliver needed infrastructure improvements at the base. All point to a need for transit-oriented residential development at a much higher density of development than the single family densities contemplated in the Reuse Plan. Unfortunately, higher residential densities being implemented in response to current policies and economic realities mean that the Excess Unit Fee will begin to be charged after far fewer residential acres are able to be developed than contemplated in the Reuse Plan.

Once triggered, the Excess Unit Fee renders residential development financially infeasible and is expected to become a significant impediment to implementation of base reuse plans in the next several years. The Excess Unit Fee has grown to approximately \$98,000 per unit. This translates to a cost of over \$2 million per acre with townhome development and up to approximately \$12 million per acre with multi-family residential development, sufficient to render residential development generally infeasible. The per unit structure of the Excess Unit Fee results in a powerful disincentive for the type of higher-density residential development that current policies require because costs per acre of land escalate with density, far outstripping supported land values. The Excess Unit Fee also escalates with home prices such that a rising housing market will never outpace escalation of the fee.

Limiting development to commercial is not a viable alternative because commercial does not generate sufficient land value to support the cost of infrastructure and relies on residential to bear a disproportionate share of these costs. Challenges regarding viability of new commercial development have been a consistent theme in the City's implementation efforts to date at Alameda Point as well as the Alameda Landing project. Residential is the only use demonstrated to support infrastructure and base-wide improvement costs needed to implement the mixed-use vision for the Town Center and Waterfront and Main Street Neighborhoods sub-areas. Without residential to help support infrastructure costs, future commercial development becomes even more challenging.

Following the initial phase of development, which includes Site A, 962 market rate units remain before the Excess Unit Fee begins to apply. Remaining units are currently being contemplated for incorporation as part of the second phase of Site A as well as the West Midway / RESHAP projects and will allow these projects to move forward. Afterward, few units are anticipated to remain before the Excess Unit Fee begins to apply, rendering subsequent mixed use development infeasible. The likely outcome is that redevelopment efforts at Alameda Point will stall following completion of the projects on the immediate horizon. While incremental progress may continue within the Adaptive Reuse Sub-Area in reuse of existing historic buildings, the mixed use Town Center and Waterfront and Main Street Neighborhoods depend on residential for feasibility. These sub-areas risk languishing for an extended period of years, due to the Excess Unit Fee, hoping for a more favorable market dynamic or a large end-user "unicorn" to emerge and catalyze commercial development. Impacts of the Excess Unit Fee are already being felt, as it forces an emphasis on lower density housing types that result in fewer units, although this works at cross-purposes with the vision for Alameda Point, planning for the City's Regional Housing Needs Allocation and policies responding to the climate crisis.

B. Planning and Policy Context

Alameda Point Sub-Areas

The former NAS Alameda is comprised of four distinct sub-areas that guide its redevelopment:

- The Town Center and Waterfront Sub-area (129 acres) is envisioned as a pedestrian-friendly, transit-supportive mixed-use area around the Seaplane Lagoon and would include retail, restaurant, recreational, entertainment, and multi-family housing uses alongside the existing commercial recreation, light manufacturing, arts and crafts, and maritime uses.
- The Main Street Neighborhoods Sub-area (140 acres) is envisioned as a mixed-use residential neighborhood with complementary small-scale, neighborhood serving commercial, service uses, urban agriculture and parks.
- The Adaptive Reuse Sub-area (207 acres) is envisioned to be redeveloped primarily through adapting existing historic buildings for new uses on a building-by-building basis. Residential development is not precluded in this area.
- The Enterprise Sub-area (111 acres) is envisioned to be redeveloped with research and development, industrial, manufacturing and office uses.

In particular, the Town Center and Waterfront and Main Street Neighborhoods sub-areas require inclusion of a significant residential component to realize their vision as pedestrian-friendly, transit-supportive mixed-use neighborhoods. Residential is also key to financing the infrastructure, parks and open space improvements that support this goal, as residential is the only use that generates a land value sufficient to support the cost of improvements.

Climate Action and Resiliency Plan

Efforts to respond to the climate crisis have risen to the forefront as impacts have become increasingly apparent and acute. Alameda has much at stake in mitigating the most severe effects based on its direct exposure to sea level rise. The City's 2019 [Climate Action and Resiliency Plan \(CARP\)](#) envisions the City taking a leadership role in the fight against climate change by charting a path toward a resilient and sustainable future. The CARP outlines numerous strategies for reducing greenhouse gas emissions to net zero while adapting to the climate change impacts that are already occurring. Among the suite of actions to achieve greenhouse gas reduction goals, several relate to land use planning, and call for an emphasis on higher-density housing types:

- Change zoning to allow more multifamily use, reduced parking requirements, and increased allowable density while shortening overly lengthy permitting timelines.

- To address future regional housing needs, providing housing on fewer sites that support higher density development has lower GHG emissions than providing housing at more sites with lower densities.
- Multifamily housing configurations are better than single-family configurations.
- ...continue to support regional GHG emissions goals and the Regional Sustainable Communities Strategy: Plan Bay Area by planning for and approving higher-density residential and mixed use residential projects ...

Alameda Point stands as the largest and most prominent opportunity to implement the land use-related actions of the CARP by emphasizing higher-density transit-oriented housing development.

Statewide Housing Crisis and the Regional Housing Needs Allocation Process

There is a statewide shortfall in the production of housing of approximately 100,000 housing units per year¹. The chronic underproduction of housing has far reaching consequences including rising costs, growing inequality, decreasing affordability, and quality of life impacts such as long commutes. Impacts are being felt in Alameda as well, as over one third of all households spend 30% or more of their income on housing costs and, among households with incomes below \$75,000 per year, over 70% spend 30% or more of their income on housing².

Responding to the statewide crisis, the California Department of Housing and Community Development has substantially increased housing unit assignments under the Regional Housing Needs Allocation (RHNA) process by accounting for existing unmet needs. The City's RHNA for the 2023-2031 period³ is 5,343 units, triple the previous allocation and equivalent to a 17% increase in the number of households living in Alameda. At a single family density of development, these 5,343 units would consume over a square mile of available residential land, something that does not exist in Alameda. Planning for the required number of units will necessarily emphasize higher-density housing types that make efficient use of land in appropriate locations throughout the city, including areas planned for mixed-use residential within Alameda Point.

¹ California Department of Housing and Community Development. February 2018. California's Housing Future: Challenges and Opportunities. Final Statewide Housing Assessment 2025.

² 2015-2019 American Community Survey.

³ Draft Regional Housing Needs Allocation (RHNA) Plan for the San Francisco Bay Area, 2023-2031.

C. Excess Unit Fee

The Excess Unit Fee applies to market rate units in excess of a residential unit baseline established based on the 1996 Reuse Plan. The Excess Unit Fee is \$50,000 as indexed for increases in home prices (Case-Shiller Index) since the initial land transfer and is currently approximately \$98,000 per market rate unit, having increased by 96% over the last eight years.

Table 1. Current Excess Unit Fee		
Fee Prior to Indexing	\$50,000	Per Market Rate Unit
Cash-Shiller Home Price Index as of June 2013	169.44	Phase 1 Transfer Occurred June 4, 2013
Cash-Shiller Home Price Index as of June 2021	331.26	June is most recent available
Percentage Increase in Index Since June 2013	96%	
Excess Unit Fee Indexed to May 2021	\$98,000	rounded to nearest \$1,000.

Remaining Development Potential Before Excess Unit Fee Applies

A total of 1,506 new market rate units are permitted within Alameda Point west of Main Street prior to triggering the Excess Unit Fee. Units that are complete, in-progress or approved within Phase 1 of Site A add 544 market rate units, leaving 962 units available. The remaining 962 units are estimated to be sufficient for development contemplated within the second phase of Site A, the West Midway and RESHAP projects, and allow for approximately 69 market rate units within another future project, as summarized in Table 2.

Table 2. Market Rate Units Within Residential Unit Baseline	
Market Rate Units Within Baseline Available	1,506 Units
Site A - Phase 1 Complete, In-Progress, or Approved	(544 Units)
Remainder After Phase 1 of Site A	962 Units
Estimated Remaining Development Within Baseline	
Site A - Phase 2 and Balance Phase 1 ⁽¹⁾	533 Units
West Midway and RESHAP ⁽²⁾	360 Units
Other Future Residential	69 Units
Subtotal	962 Units

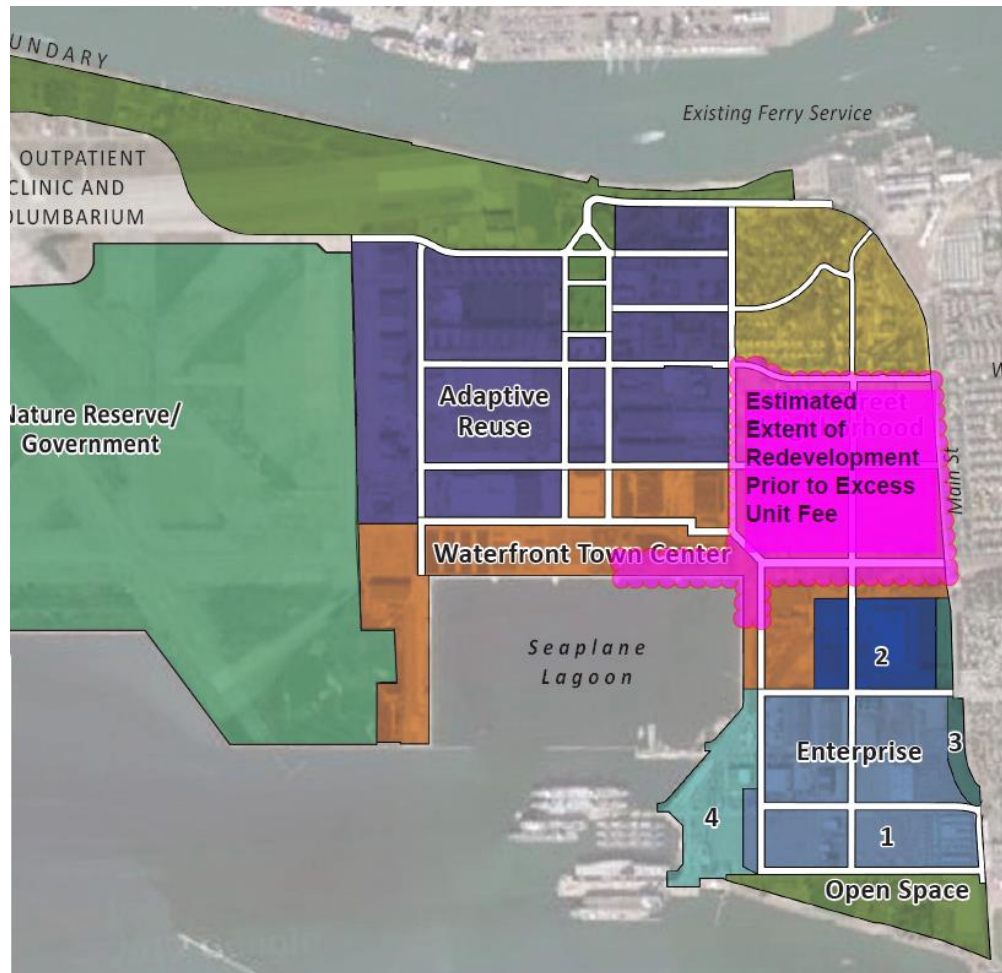
⁽¹⁾ To provide for a feasible development plan for Phase 2 and Block 10 of Site A, a market rate unit count in this approximate range is currently under discussion but not approved.

⁽²⁾ To enhance feasibility of the West Midway project, and to support inclusion of a variety of housing types, approximately 360 market rate units are currently under discussion for this project, but not yet approved.

Site A phases 1 and 2, West Midway, and RESHAP are accommodated within the residential unit baseline, which will allow redevelopment efforts to continue for several years. However, subsequent redevelopment efforts are likely to become severely constrained in their feasibility. It is important to note that given the large fixed cost of infrastructure to serve new development, 69 market rate units is unlikely to be a feasible project. As illustrated in the subsequent discussion, residential is key to redevelopment plans for Alameda Point because it is able to support the cost of infrastructure. However, residential is not also able to support the \$98,000 per unit Excess Unit Fee. Projects included in the residential unit baseline represent approximately one third of the total land area within the Main Street Neighborhoods and Waterfront Town Center sub-areas. The remaining two thirds may remain in their existing condition for some time without the ability to continue to include residential as a component of future mixed use development.

Map 1 illustrates the approximate extent of redevelopment at Alameda Point that can occur within the residential unit count permitted without an Excess Unit Fee (shown in magenta).

Map 1. Estimated Extent of Redevelopment Before Excess Unit Fee

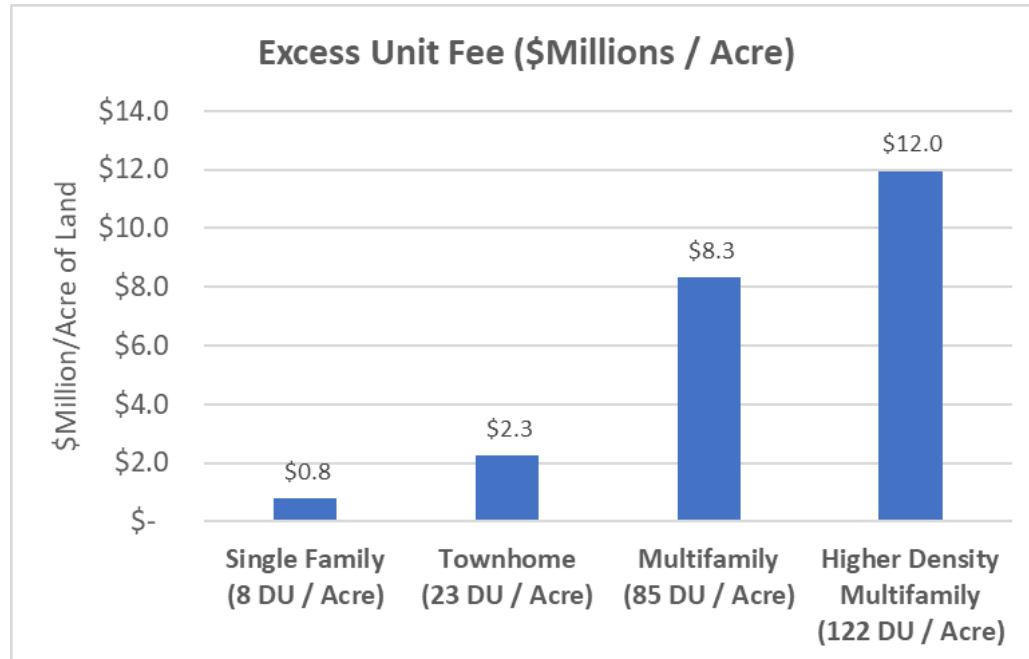


Baseline for Excess Unit Fee Reflects Primarily Single Family

A major reason the Excess Unit Fee has become more of a constraint than may have been anticipated is that it is based on an assumption of primarily single family units. The baseline number of residential units permitted is derived from the 2,737 residential units identified in the Reuse Plan. The Reuse Plan identifies 358 residential acres, resulting in an average residential density of 7.65 units per acre ($= 2,737 \text{ units} / 358 \text{ acres}$), reflective of primarily single-family detached units. Development of primarily single family units is at odds with the higher density housing types needed to realize the vision for the Main Street Neighborhoods and Town Center and Waterfront sub-areas, to support the cost of required infrastructure, and to implement policies responding to both housing and climate crises. In fact, residential development at Site A has been far denser than was anticipated in the Reuse Plan, averaging over 50 units per acre. Unfortunately, building to these higher densities, while appropriate for a variety of reasons, results in the limit on

residential units being reached after far fewer acres are developed with residential than were contemplated in the Reuse Plan.

The Excess Unit Fee applies on a per unit basis. This means higher density housing is subject to far higher fees when considered per acre of land, as illustrated in the chart below, creating a powerful disincentive for higher density housing.



D. Impacts of Excess Unit Fee on Viability of Base Reuse Plans

The Excess Unit Fee renders residential development at Alameda Point infeasible. The impact the Excess Unit Fee has on the economics of development is illustrated below using results for the first phase of Site A as an example, and separately, on a more generic per unit basis.

Illustration of Feasibility Impact of Excess Unit Fee Using Site A Example

Feasibility of development at Alameda Point has proven to be very challenging even without the Excess Unit Fee, based on the on-the ground experience with the first phase of Site A. The developer of Site A (APP) has lost approximately \$27.6 million on Phase 1, as summarized in Table 3. This loss occurred even though the initial phase was primarily residential, which supports higher land values than commercial, and outside funding was available through the County's affordable housing bond measure to offset affordable housing costs. The property was also conveyed to the developer at no cost

(i.e. no land payment to the City). In fairness, adverse results for Site A are driven in part by inclusion of base-wide improvement costs as part of the project budget, in particular a significant Ferry Terminal contribution. APP could recoup some losses if successful in re-entitling the last remaining unsold parcel (Block 10) to residential from commercial.

Table 3. Performance of Site A, Phase 1	
Land Sales / Other Revenues	\$76,010,483
Infrastructure Costs	\$92,482,107
Net Loss - Horizontal Development	(\$16,471,624)
Block 11 vertical development write down (project was infeasible and site went back to lender)	(\$11,100,000)
Combined Phase 1 Loss - Horizontal and Block 11	(\$27,571,624)

Source: APP

Based on the experience with Phase 1, the Site A developer does not intend to move forward with the current primarily commercial entitlements for Phase 2 and has declined to make the payment to extend their rights for Phase 2. The developer has indicated that re-entitlement to add a significant residential component is a condition to continuing to move forward.

To illustrate how the Excess Unit Fee would have impacted feasibility of Site A, Table 4, shows what the Site A Phase 1 performance would have looked like if the additional cost of the Excess Unit Fee had been added. Based on the 544 market rate units in Phase 1, the Excess Unit Fee would have added \$53.3 million in costs, nearly tripling the Phase 1 loss from \$27.6 million to \$80.9 million. As evident from this illustration, the Excess Unit Fee would have presented an insurmountable feasibility challenge to an already challenged project. Site A would never have moved forward had the Excess Unit Fee applied to it.

Table 4. Performance of Site A Phase 1 – Hypothetical Illustration if Excess Unit Fee Had Applied		
Net Loss, Before Hypothetical Excess Unit Fee		(\$27,571,624)
Additional Cost if Excess Unit Fee Had Applied	=544 mkt units X \$98,000	(\$53,312,000)
Phase 1 Performance if Excess Unit Fee Had Applied		(\$80,883,624)

Illustration of Feasibility Impact of Excess Unit Fee On Per Unit Basis

Table 5 provides an illustration of the economics of apartments and townhomes with and without the Excess Unit Fee on a per unit and per acre basis. Land values and costs for Site A are used for purposes of the illustration. Per acre infrastructure costs used in the illustration exclude costs of base-wide improvements that were financed by the Site A developer.

- Without the Excess Unit Fee, apartment and townhome developments are able to support the cost of infrastructure and affordable housing and an additional \$1.5 to \$1.9 million per developable acre to help offset backbone infrastructure costs for commercial project components and to finance other improvements at the base.
- With the Excess Unit Fee, residential development is not feasible and there is no ability to support the cost of other improvements. For apartments, the Excess Unit Fee equates to nearly \$12 million per acre of land. The fee alone far exceeds the improved land value, even before considering infrastructure and affordable housing costs required to be incurred in connection with delivery of the improved site.
- The Excess Unit Fee creates a significant disincentive for higher density residential as illustrated in Table 5. Without the fee, the economics of apartments and townhomes are roughly equal on a land value per acre basis. With the fee, lower density townhomes are far superior, although still not break-even.

Table 5. Illustration of Alameda Point Development Economics on Per Unit and Per Acre Basis.				
	Apartments (122 du/ac)		Townhomes (23 du/ac)	
	Per Unit	Per Acre	Per Unit	Per Acre
Value of Residential Development Pad ⁽¹⁾	\$60,000	\$7,320,000	\$250,000	\$5,750,000
(less) Affordable Housing Costs ⁽²⁾	(\$16,000)	(\$1,952,000)	(\$16,000)	(\$368,000)
(less) Backbone Infrastructure Costs ⁽³⁾	(\$22,000)	(\$2,700,000)	(\$117,400)	(\$2,700,000)
(less) Risk Adjusted Return to land developer ⁽⁴⁾	(\$9,500)	(\$1,159,000)	(\$33,400)	(\$768,000)
Balance Available to Support Infrastructure Costs for Commercial and Other Project Components, Before Excess Unit Fee	\$12,500	\$1,525,000	\$83,200	\$1,914,000
(less) Excess Unit Fee	(\$98,000)	(\$11,956,000)	(\$98,000)	(\$2,254,000)
Balance Available to Support Infrastructure Costs for Commercial and Other Project Components, After Excess Unit Fee	(\$85,500)	(\$10,431,000)	(\$14,800)	(\$340,000)

⁽¹⁾ Land values reflect actual per unit sales prices for Block 7 (townhomes) and Block 9 (apartments).

⁽²⁾ Reflects 25% affordable housing requirement and a vertical developer subsidy of approximately \$27,000 per unit based on the actual subsidy for affordable units at Block 8 plus an allocable share of infrastructure costs.

⁽³⁾ Estimated infrastructure cost per net acre for Phase 2 from Site A developer (\$49.5 million for 18.39 net acres).

⁽⁴⁾ A developer must anticipate a risk adjusted return to proceed, although none was achieved on Site A. Return requirement approximated at 25% of cost, which will equate to a lower IRR.

Costs Have Far Exceeded Estimates

Another challenge is that the actual cost of infrastructure, site preparation, and horizontal improvements has far exceeded prior estimates. For example, at the time the DDA for Site A was entered into in 2015, the pro forma for the project identified a Phase 1 horizontal improvement budget of \$61.3 million. The actual cost is now expected to total \$92.5 million, more than 50% higher than estimated, as shown in Table 6. These higher

than anticipated costs have contributed significantly to the challenges in moving redevelopment of the base forward and drives a need to consider a land use plan and development densities able to support these higher costs.

Table 6. Actual vs. Estimated Site A Infrastructure and Horizontal Development Costs for Phase 1	
Estimate at 2015 Site A DDA	\$61,278,907
Actual ⁽¹⁾	\$92,482,107
Dollar Increase	\$31,203,200
Percent Increase	51%

⁽¹⁾ Includes actual costs with over 80% of improvements complete plus estimated remaining costs based on construction bids for the improvements.

E. Commercial Land Values are Insufficient to Fund Infrastructure Costs

Recent commercial land transactions in Alameda have averaged \$1.6 million per acre, while Site A's infrastructure budget is approximately \$2.7 million per acre (excluding base-wide improvement costs), plus there is an estimated land developer return requirement of \$0.7 million. Based on these figures, there is an estimated gap to fund land development costs for commercial of approximately \$1.8 million per acre.

Table 7. Feasibility Gap of Commercial Development, Based on Site A Development Economics	
Item	\$/Acre
Potential Commercial Land Proceeds ⁽¹⁾	\$1,600,000
Infrastructure Cost Per Acre ⁽²⁾	(\$2,700,000)
Risk Adjusted Return to land developer ⁽³⁾	(\$675,000)
Surplus/ (Gap) Per Acre	(\$1,775,000)

⁽¹⁾ Weighted average of commercial land sales in Alameda from 2018-2020, per Costar.

⁽²⁾ Estimated infrastructure cost per net acre for Phase 2 from Site A developer (\$49.5 million for 18.39 net acres).

⁽³⁾ A developer must anticipate a risk adjusted return to proceed, although none was achieved on Site A. Return requirement approximated at 25% of cost, which will equate to a lower IRR.

With a gap of \$1.8 million per acre, commercial is not self-supporting. However, without the Excess Unit Fee, residential supports a surplus that can be used to fund other improvement costs, including backbone infrastructure improvements that also serve commercial components. As indicated in Table 5, without the Excess Unit Fee, each acre of residential generates approximately \$1.5 to \$1.9 million for other improvement costs, roughly sufficient to offset the infrastructure and land development funding gap for one acre of commercial / employment uses.

Adding to feasibility challenges for commercial, the market for new commercial has been deeply disrupted by the pandemic. Office vacancies throughout the Bay Area have increased and generally weakened conditions for commercial development currently prevail with the notable exception of the life science and warehouse sectors. Office vacancies in San Francisco are at their highest level since the “dot com” crash in 2003⁴. Uncertainty clouds the future of office demand as high-profile companies have moved to accommodate remote work on a more permanent basis and downsize office footprints in response. The future of retail also poses significant questions. Beyond the disruption of the pandemic, as an island with inferior access to regional freeway and transit networks, Alameda has long had a structural disadvantage in attracting certain commercial uses that seek to draw on a broader regional labor pool. These disadvantages are illustrated in the large differential between asking office lease rates between Alameda, where the average office rent is \$2.49 / SF, and Downtown Oakland, just through the tube but with superior transit and freeway access, at \$5.24 / SF, over twice that of Alameda⁵. Although, a portion of this difference is likely explained by the type and quality of space that is available. Lower prevailing lease rates in Alameda have driven greater feasibility challenges for commercial development even during periods when overall conditions for commercial development in the greater Bay Area have been relatively strong.

⁴ San Francisco Chronicle. July 2, 2021. S.F. office vacancy rises to 20%, highest level since 2003, despite more leasing activity. Roland Li.

⁵ Newmark, Greater Oakland Office Market Report, 2nd Q 2021. Rates reflect full service asking rents for available space.